

## Memorandum

*Flex your power!  
Be energy efficient!*

To: RICHARD D. LAND  
District Director (Interim)  
District 7

Date: December 31, 2009



JODY E. JONES  
District Director  
District 3

File: P3000-382  
P3000-386  
P3000-389

MARK LEJA  
Chief  
Division of Construction

KARLA SUTLIFF  
Chief  
Division of Project Management

BRENDA SCHIMPF  
Bond Program Manager  
Proposition 1B Bond Office

From:   
GERALD A. LONG  
 Deputy Director  
Audits and Investigations

Subject: Final Audit Report – Project Delivery Evaluation

Attached is Audits and Investigations' final report on the Project Delivery Evaluation. Your responses have been included as part of our final report. This report is intended for your information and Department Management. As a matter of public record, the report will be included on the Reporting Transparency in Government Web site.

Please provide our office with status reports on the implementation of the audit finding dispositions 60, 180, and 360 days subsequent to the report date. If all findings have not been corrected within 360 days, please continue to provide status reports every 180 days until the audit findings are fully resolved.

We thank you and your staff for the assistance provided during this audit. If you have any questions or need additional information, please call Laurine Bohamera, Chief, Internal Audits, at (916) 323-7107, or me at (916) 323-7122.

Attachment

c: Randell H. Iwasaki, Director  
Cindy McKim, Chief Deputy Director  
Malcolm Dougherty, Chief Engineer (Interim)  
Gary S. Sidhu, Deputy District Director, Program/Project Management, District 3  
Roy Fisher, Deputy District Director, Construction, District 7  
Shirley Choate, Deputy District Director (Interim), Program/Project Management, District 7  
Joe Caputo, Division Chief, North Region Program/Project Management, District 3  
John Rodrigues, Chief, North Region Construction, District 3  
Laurine Bohamera, Chief, Internal Audits, Audits and Investigations  
Juanita Baier, Internal Audit Supervisor, Audits and Investigations

<p><b>P3000-382</b> <b>P3000-386</b> <b>P3000-389</b></p>
<p><b>Project Delivery</b> <b>Division of Construction</b> <b>Division of Project Management</b></p>
<p><b>December 2009</b></p>

**Gerald A. Long**  
**Deputy Director**  
**Audits and Investigations**  
**California Department of Transportation**

## **REPORT CONTENTS**

<b>AUDIT REPORT</b>	<b><u>Page</u></b>
Summary	1
Background	1
Objectives, Scope, and Methodology	2
Conclusion	3
Views of Responsible Officials	4
 <b>FINDINGS AND RECOMMENDATIONS</b>	
1. Construction Capital Outlay Support Costs Are Not Always Accurate	5
2. Missing Resident Engineer's Daily Reports	7
3. Lack of Independent Review for Payment of Bid Items	8
4. Conflicting Information in Project Reports	9
5. Required Six-Month Report May Not be Completed Timely	11
 <b>ATTACHMENTS</b>	
1. Division of Construction's Response	
2. Division of Project Management's Response	
3. District 3's Response	
4. District 7's Response	
5. Proposition 1B Bond Office's Response	

## **Summary**

The California Department of Transportation (Department), Audits and Investigations (A&I) has completed an evaluation of the Divisions of Project Management and Construction at Headquarters and in Districts 3 and 7, with an emphasis on Proposition 1B projects. We performed the evaluation to determine if adequate controls exist in the Project Delivery area, specifically in Project Management and Construction, to manage capital projects. The scope of this evaluation was limited to interviews at Headquarters and a review of projects in Districts 3 and 7.

Our evaluation disclosed that Project Management and Construction in Headquarters have an effective and efficient organizational structure to carry out their responsibilities. We also found that Districts 3 and 7 have adequate controls in place to properly manage projects, except for the issues noted below:

- Construction Capital Outlay Support Costs Are Not Always Accurate
- Missing Resident Engineer's Daily Reports
- Lack of Independent Review for Payment of Bid Items
- Conflicting Information in Project Reports
- Required Six-Month Report May Not be Completed Timely

## **Background**

Project Delivery is responsible for facilitating the delivery of capital projects on the State Highway system in order to improve the movement of people, goods, and services across California. Capital projects go through four major phases of work: 1) Permits and Environmental Studies; 2) Plans, Specifications, and Estimates; 3) Right of Way; and 4) Construction. The following Divisions, within Project Delivery, help facilitate the delivery of these capital projects: Environmental Analysis, Design, Engineering Services, Right of Way and Land Surveys, Project Management, and Construction. Our evaluation focused on the Divisions of Project Management and Construction at Headquarters and Districts 3 and 7.

The Division of Project Management is responsible for the management and delivery of the Department's portfolio of transportation improvement projects. Its major activities include: monitoring and reporting on the delivery status of the portfolio of projects; developing the overall workload and budget for the transportation improvement project portfolio; developing and implementing the tools, formulas, and standards used to estimate the resources necessary to deliver each project; and developing, conducting and managing training courses to improve the skills of the staff working on these projects.

**Background  
(Continued)**

The Division of Construction is responsible for establishing construction policies, procedures, and objectives; providing guidance to the districts on administering construction contracts; validating that the district construction contracts are administered fairly and in good faith; and providing expert assistance to district construction managers on complex and sensitive issues in construction contracts.

Each fiscal year District Directors submit a Contract for Delivery (CFD) agreement to the Director. The CFD is a promise that their individual district will deliver a list of projects to the Ready to List (RTL) milestone date within that fiscal year. District Division Chiefs for Project Management have overall responsibility for the management of the capital program in their districts or regions. Project Managers in each district have full authority, delegated from the District Division Chief for Project Management, to produce the results that are intended, meet schedules, and stay within budget. The Project Manager is responsible for the planning, controlling, and closing of a project and retains these responsibilities over the life of the project. In addition, the project managers are responsible for the project's overall scope, risk management plan, cost, and schedule.

The Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006, approved by the voters as Proposition 1B on November 7, 2006, authorized the issuance of \$19.925 billion in State general obligation bonds for specific transportation programs. On January 17, 2007, Senate Bill 88 (SB 88) was chaptered by the legislature, which designates administrative agencies for each of the programs funded by Proposition 1B. SB 88 also imposes various requirements on the agencies relative to adopting program guidelines, allocating of bond funds, and reporting on projects funded by Proposition 1B.

**Objectives,  
Scope, and  
Methodology**

We conducted an evaluation of the Divisions of Project Management and Construction at Headquarters and Districts 3 and 7. We interviewed personnel at Headquarters and reviewed internal controls at Districts 3 and 7 to determine whether policies, procedures, and processes are in place to adequately manage projects. We selected specific projects in Districts 3 and 7 and tested them for the following objectives:

1. Assess compliance with applicable policies and procedures, with particular emphasis on Proposition 1B requirements.
2. Evaluate the process for monitoring costs against the project budget.
3. Evaluate the process for identifying and reporting project delays and changes in the scope of work.

**Objectives,  
Scope, and  
Methodology  
(Continued)**

4. Assess the process for approving proposed changes in scope and budget and determine whether the changes are consistent with baseline agreements.
5. Evaluate the process for preparing and approving Contract Change Orders.
6. Evaluate the process for reviewing and accepting project deliverables, including the various milestones and final product.
7. Evaluate the process of reporting project status for timeliness, completeness, accuracy, and compliance with milestones and other performance measures.
8. Determine how the district manages risk in quality, scope, schedule, and cost in order to attain successful project completion.

The evaluation was performed in accordance with the International Standards for the Professional Practice of Internal Auditing.

The evaluation covered projects in the RTL stage or in construction during fiscal year 2008/2009. We included tests as we considered necessary to achieve the above objectives.


**Conclusion**

Our evaluation disclosed that Project Management and Construction in Headquarters have an effective and efficient organizational structure to carry out their responsibilities. We also found that Districts 3 and 7 have adequate controls in place to properly manage projects, except for the issues noted below:

- Construction Capital Outlay Support Costs Are Not Always Accurate
- Missing Resident Engineer's Daily Reports
- Lack of Independent Review for Payment of Bid Items
- Conflicting Information in Project Reports
- Required Six-Month Report May Not be Completed Timely

**Views of  
Responsible  
Officials**

We requested responses from the Chiefs of the Divisions of Project Management and Construction. We also requested a response from the District Directors for Districts 3 and 7 on the recommendations addressed in Findings 2 and 3. In addition, the Bond Program Manager provided us with a response to Finding 5. These officials have acknowledged the findings and recommendations and, in some cases, taken corrective action. Please see the Attachments for complete responses.

*For*   
**GERALD A. LONG**  
**Deputy Director**  
**Audits and Investigations**

**April 30, 2009**  
**(Last Day of Audit Field Work)**



## FINDINGS AND RECOMMENDATIONS

### **Finding 1 - Construction Capital Outlay Support Costs Are Not Always Accurate**

Construction Capital Outlay Support (COS) costs are not always accurately reflected in total project costs. We found some projects had classified consultant design COS costs as construction COS costs. In addition, we found that some work activity charged to the construction COS phase of a project was not related to construction work elements. Rather, these charges were associated with the Plans, Specifications, and Estimates (PS&E) and/or the Permits and Environmental Studies phase of the project. The charges were not always corrected; and in the cases where the charges were corrected, the corrections were made untimely.

#### ***Project COS Phases***

- 0 – Permits and Environmental Studies
- 1 – Plans, Specifications, and Estimates
- 2 – Right of Way
- 3 – Construction

In one project, we found \$1.35 million for updating the design specifications and environmental permits charged to construction COS costs. Based on the additional work, it appears that the

project was not ready to be in RTL status. The work performed after the project was listed in RTL status consisted of the following:

- Performing preliminary engineering studies and preparing the draft project report.
- Preparing and approving the project report and final environmental document.
- Preparing base maps and plan sheets.
- Obtaining permits, agreements, and route adoptions during the PS&E component.
- Preparing preliminary structures design data.

Another project required significant design rework, which was charged to construction COS. This project was for building soundwalls and it was suspended for approximately four months due to the following reasons:

- There were a number of design issues that included the soundwalls being built through power poles, trees, existing homeowner's retaining walls, drainage flow, and sewer pipes.
- Two surveying groups obtained different elevation and horizontal alignment figures from the plans.

By the time the project was reinstated, the contractor had not performed any controlling bid item work, yet it had over \$1.3 million charged to construction COS costs.

**Finding 1 –  
(Continued)**

The construction phase of a project contains budgeted hours for design and environmental; however, these budgeted hours should only be charged for construction staking, assistance with contract change orders, and oversight.

When COS costs for work associated with Permits and Environmental Studies and PS&E phases are charged to the construction phase of a project, the construction COS costs are overstated, while the other phases are understated. Furthermore, when charges are not recorded to the correct phase of a project and mistakes are not corrected timely, it becomes difficult to:

- Accurately report and forecast results.
- Develop standardized reports providing accurate comparisons.
- Monitor performance in meeting commitments.

Senate Bill 45 of 1997 requires that the State Transportation Improvement Program list separate costs for support and for capital outlay in order to evaluate performance and cost effectiveness. Support costs are required to be listed separately in four project components: Permits and Environmental Studies; Plans, Specifications, and Estimates; Right-of-Way; and Construction.

The Project Development Procedures Manual, dated December 2007, Chapter 8, Section 3, page 8-17, states that successful project management requires effective and precise exchange of information between all the personnel involved throughout all phases of a project. It is essential that individuals performing project work all charge their time in a consistent manner. This consistency is aided by the use of standards that provide a precisely defined structure used by all involved personnel to plan the project, exchange information, and organize reporting. The Department has developed three project management standards in the form of breakdown structures, breaking down the capital outlay support process by work done, resource need, and organization structure. The data generated by the use of these standards provides information that is consistent statewide.

According to District Construction Supervisors and Office Managers, when a project gets to the ready-to-list stage, it is standard procedure to close the Permits and Environmental Studies and the PS&E phases of a project to prevent improper coding of construction COS costs. However, this practice also prevents these phases from being charged for changes to the project structural design, specifications, and environmental permits. As a result, when there is additional work performed under these phases, the work is charged to the construction COS phase.

**Recommendation**

We recommend that:

- Headquarters (HQ) Project Management review current charging practices to determine how to best charge to the appropriate phase. Once this review is complete, HQ Project Management should stress the importance of charging to the appropriate phase of a project to all districts.
- Divisions of Program and Project Management in all the districts reinforce proper charging practices in their particular district.

**Division of Project Management's Response**

HQ Division of Project Management concurred with the finding and stated that it continuously stresses the importance of proper charging practices. In addition, HQ Division of Project Management has charged the Deputy District Directors for Project Management with the responsibility of reminding their staff of proper charging practices.

**Finding 2 - Missing Resident Engineer's Daily Reports**

Resident Engineer (RE) Daily Reports were missing in four of seven project files reviewed. One of the four project files was missing all of the RE's Daily Reports.

Without all RE Daily Reports the following risks exist:

- A newly assigned RE would not have knowledge of important discussions and/or agreements with the contractor. This in turn could cause delays for the project and possibly additional claims.
- The RE is not in compliance with department policy.
- Increases the potential for fraud.
- Damages the transparent accountability of the construction process for control agency and public review.

According to the *California Department of Transportation Construction Manual*, Chapter 5, Section 5-0, page 5-0.6, dated December 2005, the RE on a project must do the following:

- For each contract day during the project's life, make a daily report on Form CEM-4501, "Resident Engineer's Daily Report/Assistant Resident Engineer's Daily Report."
- Include any information that may be pertinent even though no activity may have occurred. For example, such information could include support for determining working or nonworking days. Include the following in the daily report:

**Finding 2 –  
(Continued)**

1. Important discussions and agreements with the contractor.
2. A general statement about the type of work done.
3. Weather conditions such as maximum and minimum temperatures and precipitation, among other items.

Reasons given for the lack of RE Daily Reports in the project files varied. One reason was that the RE had completed the reports, but the reports were on the RE's computer and a hard copy was not included in the project files or on a compact disk. A second reason given was that it was an oversight by the RE. Finally, the Assistant RE for the project that was missing all of the RE Daily Reports stated that the RE was a consultant and did not turn in the daily reports.

**Recommendation**

We recommend that:

- HQ Division of Construction, reiterate to all the districts the requirement of having complete and up-to-date daily reports.
- Each District's Division of Construction enforce the requirement of verifying that the RE Dailies are in the project files and are up-to-date with its Supervising Transportation Engineers. This is especially critical when working with REs who are consultants.

**Division of  
Construction's  
Response**

HQ Division of Construction concurred with the finding and has already developed a work plan to remind districts of these policy requirements.

**District 3's  
Response**

District 3 recognizes the importance of this finding and will continue to emphasize the need to enforce the requirements for up-to-date Resident Engineer Daily Reports with its Supervising Transportation Engineers.

**District 7's  
Response**

District 7 concurred with the finding and has developed an action plan to ensure that all projects have up-to-date daily reports.

**Finding 3 -  
Lack of  
Independent  
Review for  
Payment of Bid  
Items**

Four of the seven project files reviewed were missing evidence of an independent review for payment of at least one bid item. In some instances, calculations for payment of bid items involved complex computations. The independent reviewer would have the technical knowledge to detect mistakes in the computations and/or duplicate payments.

Without an independent review for payment of bid items, mistakes could go uncorrected and the risk for fraud increases.

**Finding 3 –  
(Continued)**

According to the *California Department of Transportation Construction Manual* dated September 2008, Chapter 5, Section 5-1, Form CEM-4801, the resident engineers and assistant resident engineers should use Form CEM-4801, Quantity Calculations, as the basic source document for most contract item quantity calculations. Additionally, Form CEM-4801 provides a spot for the independent reviewer to sign/initial, thus providing proof the review occurred.

According to the construction managers, this was simply an accidental oversight. However, we noted sixteen instances in the four projects, where the independent review signature was missing.

**Recommendation**

We recommend that:

- HQ Division of Construction remind districts statewide of the importance of complying with departmental policy regarding independent review for payment of bid items.
- Districts' Division of Construction should ensure that REs in their district are complying with departmental policy by making certain that all bid item calculation sheets have evidence of an independent review.

**Division of  
Construction's  
Response**

HQ Division of Construction concurred with the finding and has already developed a work plan to remind districts of these policy requirements.

**District 3's  
Response**

District 3 will continue to emphasize the need to enforce departmental policy requiring all bid item calculation sheets have evidence of an independent review.

**District 7's  
Response**

District 7 concurred with the finding and has developed an action plan to inform all supervisors and managers that quantity calculations for monthly payment of bid items must have an independent check.

**Finding 4 –  
Conflicting  
Information in  
Project Reports**

Some Project Quarterly and Semi-annual Reports contain conflicting project cost information and baseline schedules. Our review of five Proposition 1B-funded projects revealed the following conflicting project data on the project quarterly and semi-annual reports from Districts, the Department, and the California Bond Accountability Web Site:

- One district's database incorrectly listed a project's total COS cost paid to date at \$2.5 million less than actual. The same database did not list another project's COS budget and listed the project's total capital budget at \$42 million less than actual.

**Finding 4 –  
(Continued)**

- The 2<sup>nd</sup> Quarter 2009 STIP Report incorrectly reported the construction capital budget at approximately \$89 million more than the amount committed.
- The California Bond Accountability Web site does not report capital construction costs paid to date for one project. On another project, the Web site shows that it was completed on time when, in fact, the approved baseline completion schedule date was moved forward by 4.5 months.

Reports that do not show current and accurate information may cause the user of these reports to come to the wrong conclusions or have conflicting conclusions when reporting to outside entities.

To comply with the Governor's Executive Order S-02-07, under in-progress accountability, the California Transportation Commission (CTC) has required the Department to report each quarter on the status of each Corridor Mobility Improvement Account and Highway 99 Improvement bond-funded project. The progress report shall include approved budgets, actual expenditures, and forecasted cost for each phase as identified in the baseline agreement. The report shall also include approved schedules, progress to date, and forecasted completion dates of each phase. The purpose of these reports is to show CTC, the Department of Finance, the Legislature, and ultimately, the public, that projects are being executed in a timely fashion and are within the scope and budget identified in the executed baseline agreements.

The causes for the conditions noted above are:

- Districts were unable to determine why their systems show different cost figures than the reports issued by HQ. Both systems are collecting project cost information from the Transportation Accounting and Management System.
- The California Transportation Improvement Program System database shows committed and uncommitted funding, whereas the District and the California Bond Accountability Web site reports show committed funds only on large-dollar projects.
- Department policy allows project completion dates to be changed when the changes occur within the same fiscal year.

**Recommendation**

We recommend that HQ Division of Project Management ensure the data on the various project management reports is consistent.

**Division of Project Management's Response**

HQ Division of Project Management is currently developing a new information technology system, Project Resource and Scheduling Management Project (PRSM). In addition, the Division of Accounting is in the process of deploying the Enterprise Resource Planning Financial InfraStructure system (E-FIS). These two systems will provide the tools needed for current and consistent information.

**Finding 5 - Required Six-Month Report May Not be Completed Timely**

Project managers are unaware of the Senate Bill 88 (SB-88) requirement to provide a report within six months of a Proposition 1B-funded project becoming operable. Even though none of the eleven projects reviewed had been completed within the last six months, we interviewed the assigned project managers and none of them had knowledge of this requirement.

The Department will not be in compliance with SB-88, approved in August 2007, if the report is not completed within six months of a project becoming operable.

The Governor approved SB-88 in August 2007, which imposed various requirements on the administrative agencies relative to reporting on projects funded with Proposition 1B money. One of the requirements in SB-88 is that *“within six months of a project becoming operable, the recipient agency shall provide a report to the administrative agency on the final costs of the project as compared to the approved project budget, the project duration as compared to the original project schedule as of the date of allocation, and performance outcomes derived from the project compared to those described in the original application for funding. The administrative agency shall forward the report to the Department of Finance by means approved by the Department of Finance.”*

None of the eleven projects we tested were completed projects. Thus, none of the projects had violated the six-month reporting requirement imposed by SB-88 chaptered in August 2007. However, our A&I Propositions Audit Oversight Unit identified a completed Proposition 1B project, where the project manager was unaware of all Proposition 1B requirements, and thus, failed to submit the required Project Completion report within the six-month window period mandated by the CTC Guidelines. It is critical that the project managers have knowledge of this requirement to ensure the reporting requirement is met for all projects funded by Proposition 1B.

**Recommendation**

We recommend that the Division of Program and Project Management and the Proposition 1B Office work together to develop a process to comply with the six-month reporting requirement. The process should

identify who is responsible for preparing the six-month reports and determine who will be the recipient of the reports for the Department.

**Proposition 1B  
Bond Office's  
Response**

The Proposition 1B Bond Office has developed a work plan to address this finding. The work plan identifies the roles and responsibilities of the different programs within Caltrans responsible for making sure this requirement is met.

**Audit Team**

Laurine Bohamera, Chief, Internal Audits  
Juanita F. Baier, Audit Supervisor  
Randy Braun, Auditor  
Dawn Beyer, Auditor



## **ATTACHMENT 1**

### **DIVISION OF CONSTRUCTION'S RESPONSE TO THE DRAFT REPORT**

## Memorandum

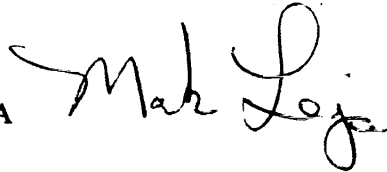
*Flex your power!  
Be energy efficient!*

To: GERALD A. LONG  
DEPUTY DIRECTOR  
DIVISION OF AUDITS AND INVESTIGATIONS – MS 2

Date: December 9, 2009

File: P3000-382  
P3000-386  
P3000-389

From: MARK LEJA  
Chief  
Division of Construction



Subject: Project Delivery Evaluation - Division of Construction Audit Response Work Plan

The Division of Construction concurs with the findings and recommendations of your revised draft audit report dated November 25, 2009 of Proposition 1B project delivery that affects policy and operations within its span of control.

I share your concerns about missing resident engineer daily reports identified in finding two and the lack of independent review for payment of bid items from finding three. My independent headquarters review of both these issues concluded that sufficient policy and training mechanisms are in place to fulfill the Division of Construction's project delivery commitments.

I agree with your recommendations to reiterate to all the districts the policy requirements of having complete and up-to-date resident engineer daily reports and independent review of bid item payment computations. It is imperative that this documentation be complete and properly filed within the project records.

The Division of Construction will execute the following work plan to remind districts of these policy requirements:

1. Independent construction policy directive reminders for audit findings two and three will be prepared and issued by January 31, 2010.
2. Copies of these approved construction policy directives will be provided to the Division of Audits and Investigation upon issuance.
3. Feedback on the progress of these implementing actions will be provided at the 60-, 180-, and 360-day requests for status of this audit response work plan memorandum or upon final implementation of these work plan activities.

The individuals responsible for executing this plan will be subject matter experts from the Division of Construction, Office of Contract Administration.

If you have further questions or recommendations, please contact Mike Kissel, Chief, Office of Contract Administration at (916) 654-2467.

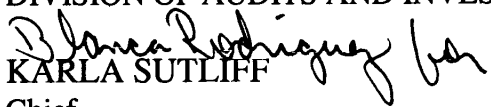
## **ATTACHMENT 2**

### **DIVISION OF PROJECT MANAGEMENT'S RESPONSE TO THE DRAFT REPORT**

## Memorandum

*Flex your power!  
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**To:** GERALD A. LONG  
DEPUTY DIRECTOR  
DIVISION OF AUDITS AND INVESTIGATIONS – MS 2

**From:**   
KARLA SUTLIFF  
Chief  
Division of Project Management

**Date:** December 28, 2009

**Subject:** Project Delivery Evaluation – Division of Project Management Audit Response Work Plan

The Division of Project Management concurs with the findings and recommendations of your revised draft audit report dated November 25, 2009 of Proposition 1B project delivery that affects policy and operations within its span of control.

The Division shares your concerns that Construction Capital Outlay Support costs are not always accurately reflected in the total project costs. The Division has reviewed our current charging practices and we have determined that they are appropriate. The Division continuously stresses the importance of proper charging. The Deputy Directors for Project Management in the districts have been charged with reminding the district staff.

The Division also shares your concerns related to conflicting information in project reports. The Division is currently developing a new IT system (PRSM) and the Division of Accounting is in the process of deploying the EFIS system. These IT systems will provide the tools needed for current and consistent fiscal reporting.

If you have further questions or recommendations, please contact Blanca Rodriguez, Chief, Project Delivery Management Support, at 654-3149.

## **ATTACHMENT 3**

### **DISTRICT 3'S RESPONSE TO THE DRAFT REPORT**

# Memorandum

*Flex your power!  
Be energy efficient!*

To: GERALD A. LONG  
Deputy Director  
Audits and Investigations

Date: November 30, 2009

File:

From: JODY JONES  
District 3 Director



Subject: Project Delivery Evaluation Audit (P3000-382, P3000-386, P3000-389)

This is District 3's response to the draft Project Delivery Evaluation Audit dated November 25, 2009.

## Finding 2 – Missing Resident Engineer's Daily Reports

### Recommendation

We recommend that:

- HQ Division of Construction, reiterate to all the districts the requirement of having complete and up-to-date daily reports.
- Each District's Division of Construction enforce the requirement of verifying that the RE Dailies are in the project files and are up-to-date with its Supervising Transportation Engineers. This is especially critical when working with REs who are consultants.

### District 3 Response

District 3 takes the findings of Audits and Investigations seriously. The District recognizes the importance of up-to-date Resident Engineer Daily Reports. The District will continue to emphasize the need to enforce to the requirements for up-to-date Resident Engineer Daily Reports with its Supervising Transportation Engineers.

## Finding 3 – Lack of Independent Review for Payment of Bid Items

### Recommendation

We recommend that:

- HQ Division of Construction remind districts statewide of the importance of complying with department policy regarding independent reviews of bid items.
- Each Districts' Division of Construction should ensure that REs in its district are complying with departmental policy by making certain that all bid item calculation sheets have evidence of an independent review.

GERALD A. LONG

November 30, 2009

Page 2

District 3 Response

District 3 takes the findings of Audits and Investigations seriously. The District recognizes the importance of an independent review of bid item calculation sheets. The District will continue to emphasize the need to enforce departmental policy requiring all bid item calculation sheets have evidence of an independent review.

Following the issuance of the final audit report, District 3 will implement the above actions.

If you have any questions or concerns, please contact John Rodrigues, Chief, North Region Construction at (530) 741-5590.

**ATTACHMENT 4**

**DISTRICT 7'S RESPONSE  
TO THE DRAFT REPORT**



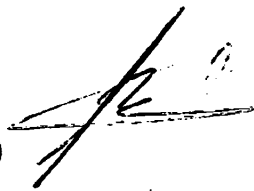
## Memorandum

*Flex your power!  
Be energy efficient!*

To: GERALD A. LONG  
Deputy Director  
Audits and Investigations

Date: December 17, 2009

From: RICHARD D. LAND  
District Director (Interim)  
District 7



Subject: Draft Audit Report – Project Delivery Evaluation

The District has reviewed the revised draft report of Audits and Investigations' Project Delivery Evaluation for fairness and accuracy. As requested, the District offers the following actions in response to the findings and recommendations in the report.

**Finding 1:** Construction Capital Outlay Support Costs Are Not Always Accurate.

**Recommendation:** Divisions of Program and Project Management in all the districts reinforce proper charging practices in their particular district.

### ***DISTRICT 7 ACTION PLAN:***

- 1) In August of 2009, District 7 issued a Deputy District Directive Policy for support cost and proper charging. The District is at the implementation phase.
- 2) All managers and supervisors will review current charging practices and assess where deficiencies exist by end of January 2010.
- 3) Supervisors will educate and/or remind staff of proper charging and address deficiencies by February 2010.
- 4) All managers and supervisors will continuously monitor and reinforce good practices.

**Finding 2:** Missing Resident Engineer's Daily Reports

**Recommendation:** Each District's Division of Construction enforce the requirement of verifying that the RE Dailies are in the project files and are up-to-date with its Supervising Transportation Engineers. This is especially critical when working with REs who are consultants.

***DISTRICT 7 ACTION PLAN:***

- 1) Inform all supervisors and managers that a resident engineer's daily report must be prepared for all projects in accordance with the Construction Manual (completed on Dec. 2, 2009).
- 2) Form a team to review resident engineer daily reports for at least one project per resident engineer. This will be completed by the end of February 2010.
- 3) Review the Construction Manual's policy on resident engineer's daily report at the next District 7 Resident Engineer's meeting currently planned for March 2010.
- 4) Discuss the results of the review at the planned RE March 2010 meeting.
- 5) Do another review of project records after one year.

**Finding 3: Lack of Independent Review for Payment of Bid Items**

**Recommendation:** District's Division of Construction should ensure that REs in its district are complying with departmental policy by making certain that all bid item calculation sheets have evidence of an independent review.

***DISTRICT 7 ACTION PLAN:***

- 1) Inform all supervisors and managers that quantity calculations for monthly payment of bid items must have an independent check (completed on Dec. 2, 2009).
- 2) Form a team to review calculations for bid item payment for at least one project per resident engineer. This will be completed by the end of February 2010.
- 3) Review the Construction Manual's policy on completing quantity calculations for monthly payment of bid items at the next Resident Engineer's meeting currently planned for March 2010.
- 4) Discuss the results of the review at the planned RE March 2010 meeting.
- 5) Do another review of project records after one year.

**Finding 4: Conflicting Information in Project Reports**

**Recommendation:** HQ Division of Project Management ensures the data on the various project management reports is consistent.

***DISTRICT 7 ACTION PLAN:***

- 1) By end of January 2010, inform Project Managers of the various databases and project management reports utilized and generated by HQ Division of Project Management.
- 2) At least monthly, PMs will monitor data in these various databases and reports and ensure accuracy of information by coordinating with HQ and taking appropriate corrective actions to resolve discrepancies.

**Finding 5:** Required Six-Month Report May Not be Completed Timely

**Recommendation:** Division of Program and Project Management and the Proposition 1B Office work together to develop a process on how to handle the six-month reporting requirement. The process should identify who is responsible for preparing the six-month reports and determine who will be the recipient of the reports for the Department.

***DISTRICT 7 ACTION PLAN:***

- 1) On an as-needed basis, the District will be responsive and provide input and/or feedback as requested in the development of the process and preparation of the reports.

Thank you for the opportunity to respond and comment on the findings and recommendations. If you have any questions or need additional information, please call Shirley Choate, Acting Deputy District Director for Program Project Management.

Cc: Raja Mitwasi, D7 Chief Deputy  
Roy Fisher, D7 Deputy Construction  
Shirley Choate, D7 Deputy Program Project Management

**ATTACHMENT 5**

**PROPOSITION 1B BOND OFFICE'S RESPONSE  
TO THE DRAFT REPORT**

December 9, 2009

## PROP 1B Project Delivery Evaluation

### Response to Finding and Recommendations

#### #5 - Required Six Month Report May Not Be Completed Timely

The response to finding # 5 is provided with specific steps to be taken and timeframe to implement steps

#### Roles / Responsibilities

Prop 1B Bond Office	Bond Program Coordination and Bond Reporting to CTC
Audits and Investigation	Development of Audit Plan and Overseeing Audits of Projects
Program Manager	Coordination of Project Reporting and Development of Program Status Reports
Project Managers / Local Agencies	Management of Project Scope, Schedule and Costs. Responsible for

Task	Responsible Party				Time Frame
	Bond Office	Audits and Investigation	Program Manager	PM	
Development of Training Guide for Close-out Report Requirements	R		a		Draft attached, to be finalized Jan 2010
Close-Out Requirement Training to PMs	a		R		Jan / Feb 2010
Development of Close-out Report Template	a		R		Complete by March 2010
Development Audit Plan for F/Y 9/10	a	R	a	a	Complete by Feb 2010
Development Audit Plan for FY 10/11	a	R	a	a	Complete by April 2010
Implementation of Audit Plan for FY 9/10	a	R	a	a	Feb 2010
Project Specific Close-Outs Reports			a	R	Completed as Needed
Project Audits	a	R	a	a	Determined by A&I in Plan
Final audit and response posted on website	R				As Completed

"R" – Responsible for Task, "a" – Assists with Task.